


2012 REGULAR SESSION
ACTUARIAL NOTE SB 6

Senate Bill 6 SLS 12RS-141 Engrossed with Proposed House Retirement Committee Amendment #4851 and Proposed Legislative Bureau Amendment #5126 Author: Senator Elbert L. Guillory Date: May 25, 2012 LLA Note SB 6.03 Organizations Affected: Louisiana School Employees' Retirement System (LSERS) EG1 NO IMPACT APV	The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.  Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services
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Bill Header: SCHOOOL EMPLOYEES RET: Provides for annual reporting to the La. School Employees' Retirement System on privatized jobs. (6/30/12)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	\$0
Total Five Year Fiscal Cost	
Expenditures	Decrease
Revenues	Decrease

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with administration or other fiscal concerns.

Actuarial Cost (Savings) to:	<u>Increase (Decrease) in</u> <u>The Actuarial Present Value</u>
All Louisiana Public Retirement Systems	\$0
Other Post Retirement Benefits	\$0
Total	\$0

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits.

EXPENDITURES	2012-13	2013-14	2014-15	2015-16	2016-2017	5 Year Total
State General Fund	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2012-13	2013-14	2014-15	2015-16	2016-2017	5 Year Total
State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

Note: All references to SB 6 in this actuarial note pertain to the engrossed version of SB 6 with proposed House Committee Amendment #4851 and proposed Legislative Bureau Amendment #5126.

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Bill Information:

Current Law

Under current law, when employees are terminated or positions are eliminated due to privatizing, outsourcing, or any other means, contributions on behalf of those employees are accelerated to cover their unfunded accrued liabilities. Employers are asked to report such terminations/eliminations, but in certain cases the reporting does not occur.

Current law provides for the Teachers' Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS) as separate state retirement systems.

Proposed Law

Under proposed law, employers will be required to report all employees and positions which have been privatized, outsourced, or otherwise eliminated, as under present law. In addition, SB 6 adds a reporting date of October 15 and gives the System the right to audit the employer's records upon reasonable notice.

SB 6 makes the following changes to current law:

1. Administration of the Teachers' Retirement System of Louisiana and the Louisiana School Employees' Retirement System will be merged into one state system retaining the name Teachers' Retirement System of Louisiana.
2. Each of the former systems will become a separate plan within the new combined system. The former TRSL will become the Teachers' Retirement Plan (TRP); the former LSERS will become the Louisiana School Employees' Plan (LSEP). All current law pertaining to the separate systems shall remain in place, with the exception of governance provisions.
3. The LSERS board of trustees will be abolished.
4. All property, obligations, employees, and rights of the LSERS system will be transferred to the TRSL system.
5. The TRSL board of trustees will govern both plans within the new TRSL system.
6. Four new members, representing members of LSEP, will be added to the TRSL board of trustees.
7. The TRSL board will eliminate a total of 30 positions within the combined retirement system within 18 month after the effective date; 15 positions within the first 9 months and the other 15 positions within the remaining 9 months.
8. The TRSL board will complete the transactions required to accomplish the merger within one year after the effective date.
9. The board will prepare a report on the consolidation of plans and experience accounts of both plans and present such report to the Public Retirement Systems' Actuarial Committee by June 28, 2013. PRSAC must evaluate the report and issue recommendations to the legislature by December 31, 2013.
10. After the effective date of the Act, PRSAC shall meet to revise valuations for the plans. PRSAC will be allowed to adopt a revised actuarial valuation prepared by an actuary, who is a member of the American Academy of Actuaries, engaged by the Division of Administration.

Implications of the Proposed Changes

SB 6, as it pertains to reporting requirements, does not change the cost of the System, but it could affect the timing of the receipt of contributions. If terminations/eliminations are reported on a timely basis, the funding of their accrued benefits will be accelerated.

The Louisiana School Employees' Retirement System will be merged into the Teachers' Retirement System of Louisiana. The initial merger will only be an administrative merger.

Cost Analysis:

Analysis of Actuarial Costs

Retirement Systems

Annual Reporting Provisions

The present value of the future contributions to the retirement system will not change under the proposed law. The timing is expected to change, however. The accelerated payments made for employment terminations (for the indicated events) will cause an increase in contributions from affected Districts initially, but a decrease in contributions in future years.

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TRSL-LSERS Merger Provisions

There is no actuarial cost associated with the TRSL-LSERS merger.

Other Post Retirement Benefits

There is no actuarial cost associated with this bill for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

Changes in fiscal costs are summarized below:

Expenditures:

1. Expenditures from the General Fund will be reduced beginning in FY 2013 to the extent that administrative costs of the combined retirement system will be less than the administrative costs associated with separate systems; to the extent that these savings are reflected in employer contribution requirements for the two plans; and to the extent that these costs are paid directly from the General Fund.
2. Expenditures from the new TRSL (Agy-Self Generated) for FY 2013 are estimated to be \$67,500 less than expenditures from LSERS and TRSL would have been had the merger not occurred. Payroll costs are estimated to be about \$187,500 less (15 positions \$50,000 total cost per position x 15 position x one-quarter year). Administrative costs to implement SB 6 are estimated to be about \$120,000 more than costs would have been without the merger.

For FY 2014, payroll savings are estimated to be about \$1,125,000 (\$50,000 total cost per position x 15 positions x 1 year + \$50,000 total cost per position x 15 positions x one-half year).

For FY 2015, payroll savings are estimated to be about \$1,500,000 (\$50,000 total cost per position x 30 positions).

3. Expenditures from Local Funds will increase to the extent that Louisiana School Employees' Retirement System (LSERS) will now be able to identify school districts that have privatized positions otherwise subject to membership in the system. Identification will lead to compliance with the requirement that the local district pay for the UAL associated with employees who are no longer members of LSERS because of the privatization.

Eventually expenditures from local funds will decrease as employer contribution requirements decrease because these UALs have been funded. These decreases are expected to occur beyond the five year fiscal measurement period.

4. Expenditures from Local Funds will be reduced beginning in FY 2013 to the extent that administrative costs of the combined retirement system will be less than the administrative costs associated with separate systems; to the extent that these savings are reflected in employer contribution requirements for the two plans; and to the extent that the MFP is not adjusted and these costs are paid out of Local Funds.

Revenues:

1. Revenues for LSERS (Agy Self-Generated) are expected to increase to the extent that LSERS will now be able to identify school districts that have privatized positions otherwise subject to membership in the system. Identification will lead to compliance with the requirement that the local district pay for the UAL associated with employees who are no longer members of LSERS because of the privatization.

Eventually revenues from local funds will decrease as employer contribution requirements decrease because these UALs have been funded. These decreases are expected to occur beyond the five year fiscal measurement period.

2. Revenues to the new TRSL (Agy Self-Generated) will be reduced beginning in FY 2013 to the extent that administrative costs of the combined retirement system will be less than the administrative costs associated with separate systems and to the extent that these savings are reflected in employer contribution requirements for the two plans.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

Dual Referral:

Senate

☐ 13.5.1 \geq \$100,000 Annual Fiscal Cost

☐ 13.5.2 \geq \$500,000 Annual Tax or Fee Change

House

☐ 6.8(F) \geq \$500,000 Annual Fiscal Cost

☐ 6.8(G) \geq \$500,000 Annual Tax or Fee Change